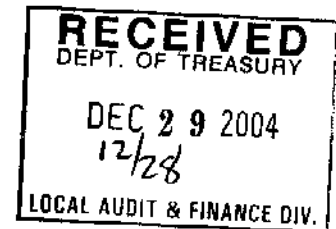


TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan
44-1160
FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2004



AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of North Branch	County Lapeer
Audit Date June 30, 2004	Opinion Date October 14, 2004	Date Accountant Report Submitted to State: October 14, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

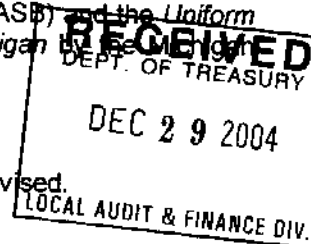
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Accountant Signature Campbell, Kusterer & Co., P.C.		Zip 48707	



TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

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BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
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INDEPENDENT AUDITOR'S REPORT

October 14, 2004

To the Township Board
Township of North Branch
Lapeer County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of North Branch, Lapeer County, Michigan as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of North Branch's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of North Branch, Lapeer County, Michigan as of June 30, 2004, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2003.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2004

The Management's Discussion and Analysis report of the Township of North Branch covers the Township's financial performance during the year ended June 30, 2004.

FINANCIAL HIGHLIGHTS

We purchased a new fire truck during the 2003-04 year at a cost of \$168,128.00. A grant was received which allowed an additional purchase of equipment totaling approximately \$60,000.00.

The Library building completed the second phase of construction at a cost of \$82,000.00.

The Township received monies from the Federal Critical Bridge Fund which help complete a replacement of the Old State Road Bridge that has been closed for some time.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. These include the General Fund, the Fire Fund, the Library Fund, the Building Fund and the Ambulance Fund.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2004

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental Funds: All of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental funds include the General Fund and the Special Revenue Funds.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

The revenue of the Township was somewhat more than budgeted due to trying to project revenue sharing. Primarily property taxes and revenue sharing are the main sources of funding for the General Fund.

The Township Board was conservative with the expenditures this year as we were very unsure of revenue sharing for this year and future years. The Board did not approve some of the projects due to this factor.

The budget line items remained close to the estimated figures other than the Fire Department Equipment purchases with the grant monies. As noted above the Board did not expend building improvements due to unsure revenues. Roadwork was also held back because of concern for revenues.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund's fund balance increased by \$31,870.73 to \$469,571.62, the Fire Fund fund balance decreased by \$57,312.36 to \$166,236.54, the Library Fund fund balance increased by \$33,840.25 to \$490,833.49, the Building Fund fund balance increased by \$24,409.10 to \$38,965.05 and the Ambulance Fund fund balance decreased by \$3,416.18 to close out that fund.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township acquired \$260,885.64 in new capital assets during the fiscal year ended June 30, 2004.

New long-term debt proceeds amounted to \$64,346.00.

Principal payments on long-term debt were \$96,854.79.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

We need to look into replacement of the existing Township building roof setup which may cost in excess of \$40,000.00.

The Fire Department also is in need of additional building space which may require a new structure to the west of our property. It is necessary to also provide for vehicle replacement approximately every 7-10 years.

A large portion of our budget revenues are used for roads each year. We are waiting for estimates from the Road Commission for replacement of a bridge on Hutchinson Road that hopefully will be completed during the next fiscal year.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2004

KNOWN FACTORS AFFECTING FUTURE OPERATIONS (continued)

The Township Board does not expect any large increases in our tax base for property taxes. The millage for the Township was on the 2004 General Election Ballot proposal to increase the allotted millage but was defeated by the voters. We are not sure when this ballot question will be placed on the ballot again.

CONTACTING THE TOWNSHIP'S MANAGEMENT

The financial reports are intended to provide an overview of the Township's finances and to show necessity for the monies received by the municipality.

Any questions about our report or need for additional information should be directed to the Supervisor of the Township.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2004

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	1 164 875 67
Petty cash	150 00
Prepaid expenses	<u>2 409 00</u>
Total Current Assets	<u>1 167 434 67</u>
NONCURRENT ASSETS:	
Capital Assets	2 095 875 00
Less: Accumulated Depreciation	<u>(548 561 00)</u>
Total Noncurrent Assets	<u>1 547 314 00</u>
TOTAL ASSETS	<u>2 714 748 67</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>1 827 97</u>
Total Current Liabilities	<u>1 827 97</u>
NONCURRENT LIABILITIES:	
Contracts payable – equipment	287 050 06
Contracts payable – roads	<u>520 174 08</u>
Total Noncurrent Liabilities	<u>807 224 14</u>
Total Liabilities	<u>809 052 11</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	1 260 263 94
Unrestricted	<u>645 432 62</u>
Total Net Assets	<u>1 905 696 56</u>
TOTAL LIABILITIES AND NET ASSETS	<u>2 714 748 67</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2004

FUNCTIONS/PROGRAMS	<u>Expenses</u>	<u>Program Revenue</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Governmental Activities:				
Legislative	4 037 10	-	-	(4 037 10)
General government	124 146 68	27 060 62	-	(97 086 06)
Public safety	201 540 61	57 565 50	50 040 00	(93 935 11)
Public works	57 750 56	-	-	(57 750 56)
Culture and recreation	146 561 80	14 093 02	-	(132 468 78)
Interest on long-term debt	39 280 68	-	-	(39 280 68)
Total Governmental Activities	<u>573 317 43</u>	<u>98 719 14</u>	<u>50 040 00</u>	<u>(424 558 29)</u>
General Revenues:				
Property taxes				407 504 97
Penal fines				42 722 78
State revenue sharing				194 315 62
Interest				5 656 33
Miscellaneous				<u>2 477 56</u>
Total General Revenues				<u>652 677 26</u>
Change in net assets				228 118 97
Net assets, beginning of year				<u>1 677 577 59</u>
Net Assets, End of Year				<u>1 905 696 56</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2004

	<u>General</u>	<u>Fire</u>	<u>Library</u>	<u>Other Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash in bank	466 967 46	166 236 54	490 733 49	38 915 05	1 162 852 54
Petty cash	-	-	100 00	50 00	150 00
Prepaid expenses	2 409 00	-	-	-	2 409 00
Due from other funds	195 16	-	-	-	195 16
Total Assets	<u>469 571 62</u>	<u>166 236 54</u>	<u>490 833 49</u>	<u>38 965 05</u>	<u>1 165 606 70</u>
<u>Liabilities and Fund Equity</u>					
Liabilities	-	-	-	-	-
Total liabilities	-	-	-	-	-
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	469 571 62	166 236 54	490 833 49	38 965 08	1 165 606 70
Total fund equity	<u>469 571 62</u>	<u>166 236 54</u>	<u>490 833 49</u>	<u>38 965 08</u>	<u>1 165 606 70</u>
Total Liabilities and Fund Equity	<u>469 571 62</u>	<u>166 236 54</u>	<u>490 833 49</u>	<u>38 965 08</u>	<u>1 165 606 70</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2004

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	1 165 606 70
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	2 095 875 00
Accumulated depreciation	(548 561 00)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Contracts payable – equipment	(287 050 06)
Contracts payable – roads	<u>(520 174 08)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>1 905 696 56</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
Year ended June 30, 2004

	<u>General</u>	<u>Fire</u>	<u>Library</u>	<u>Other Funds</u>	<u>Total</u>
Revenues:					
Property taxes	118 209 45	115 257 80	174 037 72	-	407 504 97
Licenses and permits	3 528 00	-	-	48 284 50	51 812 50
Federal grant	-	50 040 00	-	-	50 040 00
State revenue sharing	185 180 16	-	9 135 46	-	194 315 62
Charges for services:					
Property tax administration	21 316 42	-	-	-	21 316 42
Fire	-	5 753 00	-	-	5 753 00
Penal fines	-	-	42 722 78	-	42 722 78
Interest	2 011 08	419 49	3 184 32	41 44	5 656 33
Miscellaneous	8 200 76	21 00	14 093 02	-	22 314 78
Total revenues	<u>338 445 87</u>	<u>171 491 29</u>	<u>243 173 30</u>	<u>48 325 94</u>	<u>801 436 40</u>
Expenditures:					
Legislative:					
Township Board	4 037 10	-	-	-	4 037 10
General government:					
Supervisor	9 298 47	-	-	-	9 298 47
Elections	69 32	-	-	-	69 32
Assessor	21 838 62	-	-	-	21 838 62
Clerk	32 355 70	-	-	-	32 355 70
Board of Review	1 435 75	-	-	-	1 435 75
Treasurer	14 051 05	-	-	-	14 051 05
Building and grounds	36 607 12	-	-	-	36 607 12
Professional services	1 697 65	-	-	-	1 697 65
Public safety:					
Fire protection	-	101 622 15	-	-	101 622 15
Building inspection	-	-	-	23 915 71	23 915 71
Planning and zoning	7 362 75	-	-	-	7 362 75
Public works:					
Highways and streets	57 750 56	-	-	-	57 750 56
Culture and recreation:					
Library	-	-	127 327 80	-	127 327 80
Capital outlay	1 460 39	177 420 00	82 005 25	-	260 885 64
Debt service	122 027 97	14 107 50	-	-	136 135 47
Total expenditures	<u>309 992 45</u>	<u>293 149 65</u>	<u>209 333 05</u>	<u>23 915 71</u>	<u>836 390 86</u>
Excess (deficiency) of revenues over expenditures	<u>28 453 42</u>	<u>(121 658 36)</u>	<u>33 840 25</u>	<u>24 410 23</u>	<u>(34 954 46)</u>
Other financing sources (uses):					
Loan proceeds	-	64 346 00	-	-	64 346 00
Operating transfers in	3 417 31	-	-	-	3 417 31
Operating transfers out	-	-	-	(3 417 31)	(3 417 31)
Total other financing sources (uses)	<u>3 417 31</u>	<u>64 346 00</u>	<u>-</u>	<u>(3 417 31)</u>	<u>64 346 00</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
Year ended June 30, 2004

	<u>General</u>	<u>Fire</u>	<u>Library</u>	<u>Other Funds</u>	<u>Total</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	31 870 73	(57 312 36)	33 840 25	20 992 92	29 391 54
Fund balances, July 1	<u>437 700 89</u>	<u>223 548 90</u>	<u>456 993 24</u>	<u>17 972 13</u>	<u>1 136 215 16</u>
Fund Balances, June 30	<u>469 571 62</u>	<u>166 236 54</u>	<u>490 833 49</u>	<u>38 965 05</u>	<u>1 165 606 70</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2004

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 29 391 54

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(94 667 00)
Capital Outlay	260 885 64

Repayment of debt principal is an expenditure in the governmental funds, the repayment
does not have an effect in the statement of activities but does reduce the debt
balance in the statement of net assets

Principal payments on long-term debt	96 854 79
--------------------------------------	-----------

Receipt of debt principal in the form of loan proceeds is a financing source in the
Governmental funds, the receipt does not have an effect in the statement of activities
But does increase the debt balance in the statement of net assets

Principal receipts on long-term debt	<u>(64 346 00)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>228 118 97</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of North Branch, Lapeer County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of North Branch. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2003 tax roll millage rate was 3.0144 mills, and the taxable value was \$77,642,995.00.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	50 years
Furniture and equipment	3-23 years

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective July 1, 2003, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$1,547,314.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>1,164,875.67</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	200 000 00
Uninsured and Uncollateralized	<u>1 009 744 84</u>
Total Deposits	<u><u>1 209 744 84</u></u>

The Township of North Branch did not have any investments as of June 30, 2004.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 7/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/04</u>
Land	75 500 00	-	-	75 500 00
Buildings	1 023 733 00	82 000 00	-	1 105 733 00
Equipment	<u>735 756 36</u>	<u>178 885 64</u>	<u>-</u>	<u>914 642 00</u>
Total	1 834 989 36	260 885 64	-	2 095 875 00
Accumulated Depreciation	<u>(453 894 00)</u>	<u>(94 667 00)</u>	<u>-</u>	<u>(548 561 00)</u>
Net Capital Assets	<u><u>1 381 095 36</u></u>	<u><u>166 218 64</u></u>	<u><u>-</u></u>	<u><u>1 547 314 00</u></u>

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering all Township Board members. The Township contributes an amount of each employee's annual salary to the plan. The net pension expense for the fiscal year ended June 30, 2004, was \$13,107.39.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

For the fiscal year ended June 30, 2004, building permit revenue was \$48,324.81 and building permit expense was \$23,915.71.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>195 16</u>	Current Tax Collection	<u>195 16</u>

Note 10 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	<u>Balance 7/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/04</u>
Fire Building and Truck Contract Payable	239 625 52	-	16 921 46	222 704 06
Fire Truck Contract Payable	-	64 346 00	-	64 346 00
Road Contract Payable	40 107 41	-	9 933 33	30 174 08
Road Commission Contract Payable	<u>560 000 00</u>	<u>-</u>	<u>70 000 00</u>	<u>490 000 00</u>
Total	<u>839 732 93</u>	<u>64 346 00</u>	<u>96 854 79</u>	<u>807 224 14</u>

Note 11 – Fire Building and Truck Contract Payable

On December 2, 1998, through an installment purchase contract with J.A. Contracting and Independent Bank East Michigan, the bank agreed to pay the contractor \$300,000.00 to partially fund the construction of a new fire truck and EMS building. The contract is payable by annual installment of \$28,215.00 including interest at the rate of 4.65% per annum, beginning December 2, 1999. The principal balance as of June 30, 2004, was \$222,704.06.

Note 12 – Fire Truck Contract Payable

On October 27, 2003, the Township borrowed \$64,346.00 from a bank to pay the balance owed on a new fire truck. The loan is payable in five annual installments of \$14,200.10 including interest at the rate of 3.28% per annum beginning November 10, 2004. The principal balance as of June 30, 2004, was \$64,346.00.

Note 13 – Road Contract Payable

On December 14, 1994, through an installment purchase construction contract with the Lapeer County Road Commission, the Township borrowed \$149,000.00 from a bank which was used for road work. The loan is payable in 15 annual installments beginning October 1, 1995. The principal balance as of June 30, 2004, was \$30,174.08.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 14 – Contract Payable – Lapeer County Road Commission

On February 7, 2001, the Township of North Branch entered into a contract to pay the Lapeer County Road Commission the total amount of \$700,000.00 over a ten year period for road improvements that were made during the fiscal year ending June 30, 2002. The payments are due in semi-annual payments beginning August 1, 2001, including interest at rate from 4.9% to 5.5% per annum. As of June 30, 2004, the principal balance of the contract payable was \$490,000.00.

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
8-1-04	5.50%	\$70 000 00
8-1-05	5.25	70 000 00
8-1-06	4.80	70 000 00
8-1-07	4.85	70 000 00
8-1-08	4.90	70 000 00
8-1-09	4.95	70 000 00
8-1-10	5.00	<u>70 000 00</u>
Total		<u>490 000 00</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	124 500 00	124 500 00	118 209 45	(6 290 55)
Licenses and permits	2 500 00	2 500 00	3 528 00	1 028 00
State revenue sharing	148 000 00	152 000 00	185 180 16	33 180 16
Charges for services:				
Property tax administration	22 000 00	22 000 00	21 316 42	(683 58)
Interest	3 000 00	3 000 00	2 011 08	(988 92)
Miscellaneous	5 000 00	5 000 00	8 200 76	3 200 76
Total revenues	<u>305 000 00</u>	<u>309 000 00</u>	<u>338 445 87</u>	<u>29 445 87</u>
Expenditures:				
Legislative:				
Township Board	4 385 00	4 495 00	4 037 10	(457 90)
General government:				
Supervisor	10 475 00	10 475 00	9 298 47	(1 176 53)
Elections	1 000 00	1 000 00	69 32	(930 68)
Assessor	18 800 00	23 300 00	21 838 62	(1 461 38)
Clerk	43 340 00	39 345 00	32 355 70	(6 989 30)
Board of Review	1 700 00	1 700 00	1 435 75	(264 25)
Treasurer	13 415 00	16 815 00	14 051 05	(2 763 95)
Building and grounds	32 625 00	36 725 00	36 607 12	(117 88)
Professional services	3 500 00	2 500 00	1 697 65	(802 35)
Public safety:				
Fire protection	1 000 00	1 000 00	-	(1 000 00)
Planning and zoning	6 291 00	10 141 00	7 362 75	(2 778 25)
Public works:				
Highways and streets	145 000 00	145 000 00	57 750 56	(87 249 44)
Drains	300 00	300 00	-	(300 00)
Capital outlay	2 000 00	2 700 00	1 460 39	(1 239 61)
Debt service	<u>240 000 00</u>	<u>228 335 00</u>	<u>122 027 97</u>	<u>(106 307 03)</u>
Total expenditures	<u>523 831 00</u>	<u>523 831 00</u>	<u>309 992 45</u>	<u>(213 838 55)</u>
Excess (deficiency) of revenues over expenditures	<u>(218 831 00)</u>	<u>(214 831 00)</u>	<u>28 453 42</u>	<u>243 284 42</u>
Other financing sources (uses):				
Operating transfers in	-	-	3 417 31	3 417 31
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>3 417 31</u>	<u>3 417 31</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(218 831 00)</u>	<u>(214 831 00)</u>	<u>31 870 73</u>	<u>246 701 73</u>
Fund balance, July 1	<u>383 859 00</u>	<u>383 859 00</u>	<u>437 700 89</u>	<u>53 841 89</u>
Fund Balance, June 30	<u>165 028 00</u>	<u>169 028 00</u>	<u>469 571 62</u>	<u>300 543 62</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

BUDGETARY COMPARISON SCHEDULE - FIRE FUND

Year ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	115 000 00	115 000 00	115 257 80	257 80
Federal grant	-	56 000 00	50 040 00	(5 960 00)
Charges for services	4 500 00	6 000 00	5 753 00	(247 00)
Interest	750 00	750 00	419 49	(330 51)
Miscellaneous	250 00	250 00	21 00	(229 00)
Total revenues	<u>120 500 00</u>	<u>178 000 00</u>	<u>171 491 29</u>	<u>(6 508 71)</u>
Expenditures:				
Public safety:				
Fire protection	54 650 00	119 010 00	101 622 15	(17 387 85)
Capital outlay	137 000 00	181 140 00	177 420 00	(3 720 00)
Debt service	14 000 00	14 500 00	14 107 50	(392 50)
Total expenditures	<u>205 650 00</u>	<u>314 650 00</u>	<u>293 149 65</u>	<u>(21 500 35)</u>
Excess (deficiency) of revenues over expenditures	<u>(85 150 00)</u>	<u>(136 650 00)</u>	<u>(121 658 36)</u>	<u>14 991 64</u>
Other financing sources (uses):				
Loan proceeds	80 000 00	80 000 00	64 346 00	(15 654 00)
Total other financing sources (uses)	<u>80 000 00</u>	<u>80 000 00</u>	<u>64 346 00</u>	<u>(15 654 00)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(5 150 00)</u>	<u>(56 650 00)</u>	<u>(57 312 36)</u>	<u>(662 36)</u>
Fund balance, July 1	<u>154 300 00</u>	<u>154 300 00</u>	<u>223 548 90</u>	<u>69 248 90</u>
Fund Balance, June 30	<u>149 150 00</u>	<u>97 650 00</u>	<u>166 236 54</u>	<u>68 586 54</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

BUDGETARY COMPARISON SCHEDULE – LIBRARY FUND
Year ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	170 000 00	170 000 00	174 037 72	4 037 72
State revenue sharing	8 300 00	8 300 00	9 135 46	835 46
Penal fines	45 000 00	45 000 00	42 722 78	(2 277 22)
Interest	6 000 00	6 000 00	3 184 32	(2 815 68)
Miscellaneous	<u>11 900 00</u>	<u>11 900 00</u>	<u>14 093 02</u>	<u>2 193 02</u>
Total revenues	<u>241 200 00</u>	<u>241 200 00</u>	<u>243 173 30</u>	<u>1 973 30</u>
Expenditures:				
Culture and recreation:				
Library	156 100 00	156 100 00	127 327 80	(28 772 20)
Capital outlay	<u>200 000 00</u>	<u>200 000 00</u>	<u>82 005 25</u>	<u>(117 994 75)</u>
Total expenditures	<u>356 100 00</u>	<u>356 100 00</u>	<u>209 333 05</u>	<u>(146 766 95)</u>
Excess (deficiency) of revenues over expenditures	(114 900 00)	(114 900 00)	33 840 25	148 740 25
Fund balance, July 1	<u>331 749 00</u>	<u>331 749 00</u>	<u>456 993 24</u>	<u>125 244 24</u>
Fund Balance, June 30	<u>216 849 00</u>	<u>216 849 00</u>	<u>490 833 49</u>	<u>273 984 49</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2004

Township Board:	
Wages	3 750 00
Social security	287 10
	<u>4 037 10</u>
Supervisor:	
Wages	8 345 04
Social security	638 43
Miscellaneous	315 00
	<u>9 298 47</u>
Elections:	
Miscellaneous	69 32
	<u>69 32</u>
Assessor:	
Wages	16 240 00
Social security	1 233 18
Contracted services	2 809 51
Office supplies	1 555 93
	<u>21 838 62</u>
Clerk:	
Wages	22 628 50
Social security	1 745 05
Supplies	5 947 05
Dues	1 960 10
Miscellaneous	75 00
	<u>32 355 70</u>
Board of Review	<u>1 435 75</u>
Treasurer:	
Salary	9 819 99
Social security	711 48
Printing and publishing	3 519 58
	<u>14 051 05</u>
Building and grounds:	
Wages	858 00
Social security	65 67
Supplies	472 65
Telephone	3 083 03
Utilities	4 743 67
Insurance and pension	18 683 85
Contracted services	4 741 33
Repairs and maintenance	600 50
Miscellaneous	3 358 42
	<u>36 607 12</u>
Professional services	<u>1 697 65</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2004

Planning and zoning	<u>7 362 75</u>
Highways and streets: Contracted services	<u>57 750 56</u>
Capital outlay	<u>1 460 39</u>
Debt service	<u>122 027 97</u>
Total Expenditures	<u>309 992 45</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS

June 30, 2004

	<u>Building</u>	<u>Fire</u>	<u>Ambulance</u>	<u>Library</u>	<u>Total</u>
<u>Assets</u>					
Cash in bank	38 915 05	166 236 54	-	490 733 49	695 885 08
Petty cash	<u>50 00</u>	<u>-</u>	<u>-</u>	<u>100 00</u>	<u>150 00</u>
Total Assets	<u>38 965 05</u>	<u>166 236 54</u>	<u>-</u>	<u>490 833 49</u>	<u>696 035 08</u>
<u>Liabilities and Fund Balances</u>					
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Unreserved:					
Undesignated	<u>38 965 05</u>	<u>166 236 54</u>	<u>-</u>	<u>490 833 49</u>	<u>696 035 08</u>
Total Liabilities and Fund Balances	<u>38 965 05</u>	<u>166 236 54</u>	<u>-</u>	<u>490 833 49</u>	<u>696 035 08</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS
Year ended June 30, 2004

	<u>Building</u>	<u>Fire</u>	<u>Ambulance</u>	<u>Library</u>	<u>Total</u>
Revenues:					
Property taxes	-	115 257 80	-	174 037 72	289 295 52
Licenses and permits	48 284 50	-	-	-	48 284 50
Federal grant	-	50 040 00	-	-	50 040 00
State revenue sharing	-	-	-	9 135 46	9 135 46
Charges for services	-	5 753 00	-	-	5 753 00
Penal fines	-	-	-	42 722 78	42 722 78
Interest	40 31	419 49	1 13	3 184 32	3 645 25
Miscellaneous	-	21 00	-	14 093 02	14 114 02
Total revenues	<u>48 324 81</u>	<u>171 491 29</u>	<u>1 13</u>	<u>243 173 30</u>	<u>462 990 53</u>
Expenditures:					
Fire protection	-	101 622 15	-	-	101 622 15
Building inspection	23 915 71	-	-	-	23 915 71
Library	-	-	-	127 327 80	127 327 80
Capital outlay	-	177 420 00	-	82 005 25	259 425 25
Debt service	-	14 107 50	-	-	14 107 50
Total expenditures	<u>23 915 71</u>	<u>293 149 65</u>	<u>-</u>	<u>209 333 05</u>	<u>526 398 41</u>
Excess (deficiency) of revenues over expenditures	<u>24 409 10</u>	<u>(121 658 36)</u>	<u>1 13</u>	<u>33 840 25</u>	<u>(63 407 88)</u>
Other financing sources (uses):					
Loan proceeds	-	64 346 00	-	-	64 346 00
Operating transfers out	-	-	(3 417 31)	-	(3 417 31)
Total other financing sources (uses)	<u>-</u>	<u>64 346 00</u>	<u>(3 417 31)</u>	<u>-</u>	<u>60 928 69</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>24 409 10</u>	<u>(57 312 36)</u>	<u>(3 416 18)</u>	<u>33 840 25</u>	<u>(2 479 19)</u>
Fund balances, July 1	<u>14 555 95</u>	<u>223 548 90</u>	<u>3 416 18</u>	<u>456 993 24</u>	<u>698 514 27</u>
Fund Balances, June 30	<u>38 965 05</u>	<u>166 236 54</u>	<u>-</u>	<u>490 833 49</u>	<u>696 035 08</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended June 30, 2004

	<u>Balance</u> <u>7/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/04</u>
<u>Assets</u>				
Cash in Bank	<u>86 66</u>	<u>2 066 676 60</u>	<u>2 064 740 13</u>	<u>2 023 13</u>
<u>Liabilities</u>				
Due to other funds	86 66	234 776 33	234 667 83	195 16
Due to others	<u>-</u>	<u>1 831 900 27</u>	<u>1 830 072 30</u>	<u>1 827 97</u>
Total Liabilities	<u>86 66</u>	<u>2 066 676 60</u>	<u>2 064 740 13</u>	<u>2 023 13</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

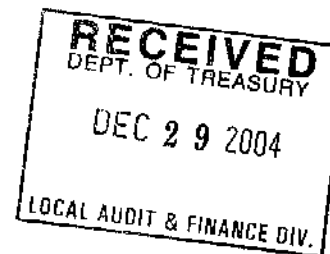
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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

October 14, 2004

To the Township Board
Township of North Branch
Lapeer County, Michigan



We have audited the financial statements of the Township of North Branch for the year ended June 30, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of North Branch in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of North Branch
Lapeer County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended June 30, 2004. The implementation of this pronouncement for the Township of North Branch began with the year ended June 30, 2004. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated June 30, 2004.

To the Township Board
Township of North Branch
Lapeer County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants